
EXETER

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REF: 150101

January 8, 2015

Ms. Kathleen Richardson
Louisiana Public Service Commission
Office of General Counsel
602 North Fifth Street, 12th Floor
Galvez Building (70802)
P.O. Box 91154
Baton Rouge, LA 70821-9154

Re: RFP 14-23
Southwestern Electric Power Company
Fuel Adjustment Clause Audit

Dear Ms. Richardson:

Exeter Associates, Inc. (Exeter) is pleased to submit this proposal to assist the Staff of the Louisiana Public Service Commission (LPSC or Commission) in conducting a review of the Fuel Adjustment Clause (FAC) filings of Southwestern Electric Power Company (SWEPCO or Company) for the years 2005-2013. In performing the audit, Exeter will work closely with in-house Legal, Auditing, and Economic Staff.

Scope of Audit

Exeter's audit of SWEPCO's FAC filings will:

- Determine whether the costs included in the FAC were reasonable, prudent, and necessary to the provision of service during each effective fuel clause rate period;
- Investigate whether the costs included in the FAC qualified for recovery under the procedures established in the LPSC's General Order in Docket No. U-21947, dated November 6, 1997;
- Determine whether the costs included in the FAC produced just and reasonable rates;

- Evaluate whether the fixed costs embedded in energy-only priced purchases were properly removed for FAC purposes;
- Review and determine whether SWEPCO's price risk management guidelines pertaining to fuel and purchased power (including policies regarding physical hedging, fixed-price transactions, index transactions, fixed-for-floating price swaps, options to purchase, and other arrangements) were reasonable or should be modified;
- Compare SWEPCO's actual fuel and purchased power practices to its price risk management guidelines in order to determine if the guidelines were followed;
- Evaluate SWEPCO's short-term purchased power practices to determine if least-cost purchases were made and if generation from high-cost resources was held to the absolute minimum, consistent with reliability requirements;
- Review any analyses conducted by SWEPCO to identify transmission constraints and examine SWEPCO's efforts to eliminate or reduce those transmission constraints when cost-effective to do so;
- Review SWEPCO's management of its purchased power agreements (PPAs) to determine if the utility's actions or inactions were prudent;
- Review SWEPCO's acquisition practices concerning natural gas, coal, lignite, and oil contracting to determine if the Company's actions or inactions were prudent; and
- Include a quantification of the adverse impact on ratepayers, if any, for each audit finding.

Plan of Action

Exeter proposes to provide our assistance by performing the following tasks:

- Conduct an initial review and analysis of SWEPCO's monthly comprehensive FAC reporting requirements filed with the LPSC;
- Work with LPSC Staff Counsel and other Staff members to develop a preliminary issues list;

- Draft discovery and review and analyze SWEPCO's responses, accompanying workpapers, and the Company's financial data;
- Review historical data involving SWEPCO's most recent FAC audit;
- Prepare a Staff audit report identifying our findings and recommendations. The audit report will include an executive summary which identifies any costs found to be in violation of LPSC's orders, and a recommendation as to the appropriate methodology to be utilized by the LPSC to provide for refunds;
- Participate in formal status conferences, pre-trial conferences, depositions, and hearings;
- Prepare for filing audit memoranda and/or pre-filed direct and rebuttal testimony in support of Staff's recommendations, together with exhibits supporting the memoranda and/or pre-filed testimony;
- Participate in settlement negotiations with Staff and SWEPCO to determine whether issues can be resolved without litigation;
- Assist in the drafting of applicable motions, exceptions, briefing sheets, and orders of the LPSC; and
- Participate in informal conference calls, meetings, and conferences with the LPSC and its Staff, as well as attend any Business Executive Sessions that Staff deems necessary.

Exeter will assist Staff in the above-tasks, as appropriate from selection through issuance of the final Commission Order. Exeter understands that the time period estimated for completion is approximately 18 months. Exeter would begin work shortly after notification of selection. We would anticipate discovery and preparation of Exeter's evaluation and findings to take place over a period of ten to 15 months, with hearings to follow on a schedule established by the Administrative Law Judge (ALJ) assigned to the proceeding.

Qualifications

Exeter is well-qualified to provide the assistance that the Commission requires. Exeter has extensive experience addressing utility regulatory matters before the LPSC, as well as other state and federal regulatory agencies. The firm's experience includes extensive work in analyzing the operations, books, and records of utility companies and providing expert testimony

on all aspects of utility regulation and ratemaking. The issues addressed in this work have included:

- Appropriate accounting standards and practices for utilities, public utility accounting, and generally accepted accounting standards;
- Appropriate ratemaking adjustments to utility accounting records;
- Appropriate allocations of costs to base rates and fuel charges;
- Recoverable expenses for ratemaking purposes;
- Just and reasonable costs and prudent investments associated with providing reliable and quality service;
- Costs passed through a FAC which are considered reasonable and prudent, and appropriate and/or eligible for recovery pursuant to Commission orders, which are necessary for the provision of gas service and which have or will produce just and reasonable rates; and
- Utility taxation.

Exeter is especially well-suited to conduct this investigation because of its directly relevant Louisiana experience. Over the past 30 years, Exeter has worked for the Commission on numerous regulatory proceedings dealing with electric utility matters and numerous SWEPCO proceedings. These cases have included the recovery of fuel and purchased power and purchased gas costs that are recovered through adjustment mechanisms such as the FAC. Some of the directly relevant projects that Exeter has undertaken for the Commission include:

- Review of SWEPCO's 2011 and 2013 Formula Rate Plan filings;
- Review of SWEPCO's certification, construction, and financing of the John W. Turk coal-fired power plant and the Stall gas-fired combined cycle plant;
- Investigation into Entergy Gulf States Louisiana's FAC filings between 1975 and 1998.
- The current investigation of Entergy Gulf States Louisiana's FAC filings for the period 2005-2009, for which an initial draft has been provided to LPSC Staff.

- Investigation of the fuel adjustment filings of Cleco Power, LLC (Cleco) for the years 2003 through 2008.
- Investigation of Cleco's resource planning, procurement practices and incurred fuel costs for the period January through October 2005 (initiated by the Commission as a result of the effect of Hurricanes Katrina and Rita on the fuel and purchased power cost of Louisiana electric utilities).
- Review of Cleco's application for Commission certification of a three-year, 730-MW PPA with affiliate SWEPCO Evangeline, LLC.
- Review of Cleco's application for Commission certification of the acquisition of the Coughlin Power Station from its affiliate, Cleco Evangeline, LLC.
- Investigation of Cleco's application for Commission approval and cost recovery plan to comply with new regulations promulgated by the U.S. Environmental Protection Agency (EPA) concerning Mercury and Air Toxins Standards (MATS) for its coal-fired generating units.
- Investigation into whether TransLouisiana Gas Company (TransLa) and Louisiana Intrastate Gas Company included inappropriate or imprudent costs in their purchased gas cost recovery mechanisms from 1981 through 1994.
- Review of the Rate Stabilization Pilot Program of TransLa for the 2004-05 through 2006-07 winter seasons.
- Review of Cleco's purchase power practices and contracts (prudence and accounting) for 2000, 2001, and 2002.

In order to ensure the successful completion of this project, Exeter will assign key senior personnel—Mr. Thomas S. Catlin, Mr. Matthew I. Kahal, and Mr. Jerome D. Mierzwa—who have experience in dealing with the specific issues that are to be addressed in this case. Mr. Catlin and Mr. Mierzwa are principals of Exeter Associates and Mr. Kahal is an independent consultant who works closely with Exeter. All three of these key personnel have worked for the Commission on numerous occasions, including the projects described above. Other members of Exeter's staff will also be available to assist with the project as needed. Detailed resumes for Exeter's key personnel are on file with the Commission. A brief description of Exeter's corporate qualifications and the qualifications and experience of its senior personnel are included as Attachment A to this proposal. Exeter would be pleased to provide additional copies of the

complete resumes of our key project team members or any other additional information the Commission may find helpful.

Cost Proposal

Exeter proposes to perform the audit and provide the report for a budget not to exceed \$70,000 for professional services, plus direct expenses not to exceed \$2,500. Exeter will bill for professional services at our standard hourly billing rates, which range from \$80 per hour for research assistants to \$210 for principals, including Mr. Catlin, Mr. Mierzwa, and Mr. Kahal. Direct expenses will be billed at State-authorized rates as specified in the Travel Policies and Procedures Memorandum issued by the State of Louisiana, Division of Administration in effect at the time such expenses are incurred.

Conflict of Interest

Please note that Exeter has no business relationship with SWEPCO or any of its affiliates, nor have we ever had such a relationship. We also have no business relationship with any likely fuel suppliers. Thus, we have no conflict of interest that could impair or restrict our ability to provide assistance and objective advice to Staff.

If you have any questions of either a technical or contractual nature, please do not hesitate to call. We look forward to again being of service to the Commission and the ratepayers of Louisiana.

Very truly yours,

Thomas S. Catlin
Vice President

TSC/ccc
Enclosure

ATTACHMENT A

EXETER ASSOCIATES, INC.

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COLUMBIA, MARYLAND 21044**

CORPORATE QUALIFICATIONS

EXETER ASSOCIATES, INC. CORPORATE QUALIFICATIONS -- GENERAL

Exeter Associates, Inc. provides economic and financial consulting services in the areas of public utility regulation, energy, and antitrust economics. The firm maintains the highest standards in the application of economic and financial analysis to both quantitative and policy issues in the electric, gas, and other industries.

Exeter Associates, Inc. is distinguished by the breadth of experience and expertise of its senior professionals. Each holds an advanced degree in economics or a related field with extensive experience in his or her area of expertise, and each is a recognized expert in one or more of the areas of analysis and research shown below.

Public Utility Regulation (Electric, Gas, and Water/Wastewater)

- | | |
|---|--|
| < <i>Alternative regulatory structures</i> | < <i>Structural separation remedies</i> |
| < <i>Local competition</i> | < <i>Rate structure and rate design</i> |
| < <i>Industry restructuring</i> | < <i>Marginal costs and rates</i> |
| < <i>Privatization</i> | < <i>Rate of return</i> |
| < <i>Wholesale/retail wheeling</i> | < <i>Affiliate company relationships</i> |
| < <i>Mergers and acquisitions</i> | < <i>Revenue requirements</i> |
| < <i>Costing methodologies</i> | < <i>Utility financial condition</i> |
| < <i>Imputation standards/non-accounting safeguards</i> | < <i>Utility productivity studies</i> |
| | < <i>Depreciation</i> |

Econometric and Energy Modeling

- | | |
|------------------------------------|--|
| < <i>Demand and cost analysis</i> | < <i>Conservation and load management analysis</i> |
| < <i>Energy supply forecasting</i> | < <i>Economic analysis of environmental policies</i> |
| < <i>Load forecasting</i> | |

Industry Analysis

- < *Electric utilities*
- < *Water/sewer utilities*
- < *Oil and natural gas*

Cost/Benefit Analysis

Life-Cycle Cost Analysis

Financial Modeling and Analysis

Evaluation/Acquisition of Alternative Utility Supplies

ELECTRICITY

Exeter staff has been continuously involved in electric utility industry regulatory issues since the Company began operating in 1981, and the experience of its senior staff predates the formation of the Company. Exeter has provided expert witness testimony in hundreds of regulatory proceedings before state and federal regulatory commissions. This testimony has been on behalf of commission staffs, consumer advocates, and federal and state government clients. In addition, Exeter personnel have provided consulting and prepared reports/studies addressing broad policy issues facing particular states and industry-wide regulatory concerns. These testimonies and studies have involved such recent issues as industry restructuring, wholesale and retail open access, privatization of utility systems, stranded costs, contract evaluation/negotiation, and the development or evaluation of performance-based mechanisms (alternative forms of regulation) for electric utilities. Most recently, Exeter has also examined and provided testimony on renewable energy, energy conservation, demand response, procurement of default electricity supply service, and construction and siting of power plants.

Exeter staff has extensive experience in providing expert testimony and consulting on revenue requirements, rate of return, load forecasting, demand side management, depreciation, cost of service, prudence, rate design, fuel costs, purchase power costs, competition (both wholesale and retail), utility resource planning, cogeneration analysis and merger issues.

NATURAL GAS

Exeter Associates has been extensively involved in natural gas regulatory issues since the mid-1970's. After the adoption of Federal Energy Regulatory Commission (FERC) Order No. 636 and subsequent unbundling of interstate pipeline service in 1993, local gas distribution companies (LDCs) have become entirely responsible for the gas procurement function, a responsibility primarily borne by interstate pipelines prior to adoption of FERC Order No. 636. Exeter's engagements have included evaluation of LDC gas procurement practices and policies in the post-Order No. 636 environment on behalf of public utility commission (PUC) staffs and consumer advocates. Exeter has provided expert witness assistance to PUC staffs and consumer advocates in numerous regulatory proceedings before state and federal regulatory authorities addressing revenue requirements, cost allocation and rate design issues. Exeter professionals have advised state and federal clients concerning issues related to natural gas industry restructuring. This includes addressing issues such as performance-based gas procurement programs, stranded costs, unbundling of LDC services, and new regulations to promote competition under conditions of an evolving market structure. Exeter has also assisted clients in the direct procurement of natural gas supplies and contract negotiations in the continually evolving competitive gas acquisition markets.

WATER/WASTEWATER

Exeter Associates' personnel have extensive experience in designing water/wastewater rates, performing cost allocation studies, evaluating revenue requirements, and addressing other aspects of water and wastewater regulation. Because of the substantial capital improvements required by water utilities to comply with the quality standards of the Safe Drinking Water Act (SDWA) and its amendments, significant increases in water rates are often required. Exeter has extensive experience in addressing the allocation and recovery of SDWA-related costs.

In addition to the staff's providing expert testimony in numerous regulatory proceedings throughout the U.S. on behalf of state and federal government clients, Exeter personnel have assisted clients in negotiations for water supply, rates, service characteristics, and billing arrangements. In addition to these issues, Exeter personnel have addressed the adequacy of infrastructure, privatization of federally-owned water treatment and storage facilities and water distribution systems, and issues related to fire protection.

EXETER ASSOCIATES, INC. RECENT CLIENTS

Exeter Associates' professional staff members have served a broad range of client organizations including public service commissions, consumer advocates, government agencies and private firms. Recent clients include:

Argonne National Laboratory	Ohio Public Utilities Commission
Arkansas Public Service Commission	Oklahoma Attorney General
Brookhaven National Laboratory	Pennsylvania Office of Consumer Advocate
California Energy Commission	Rhode Island Public Utilities Commission
Delaware Public Service Commission	Stanford Linear Accelerator Center
Electric Power Research Institute	Strategic Petroleum Reserve
Fermi National Accelerator Laboratory	U.S. Air Force
General Services Administration	U.S. Department of Defense
Georgia Consumers' Utility Counsel	U.S. Department of Energy
Idaho National Engineering Laboratory	Vermont Public Service Board
Illinois Citizens Utility Board	Virginia Attorney General
Indiana Office of Utility Consumer Counselor	West Virginia Consumer Advocate Division
Kentucky Attorney General	
Lawrence Berkeley National Laboratory	
Lawrence Livermore National Laboratory	
Louisiana Public Service Commission	
Maine Public Advocate	
Maine Public Utilities Commission	
Maryland Department of the Environment	
Maryland Energy Administration	
Maryland People's Counsel	
Maryland Power Plant Research Program	
Maryland Public Service Commission	
Minnesota Attorney General	
National Association of Regulating Utility Commissions	
National Renewable Energy Laboratory	
Nevada Public Service Commission	
Nevada Test Site	
New Jersey Department of Public Advocate	
New Mexico Attorney General	
New York State Electric & Gas	
Northrop Grumman	

EXETER ASSOCIATES, INC. KEY STAFF MEMBERS

Exeter Associates, Inc. specializes in serving clients engaged in litigative, policy-making, and decision-making activities and in providing the highest quality consulting services to clients in the areas of regulatory policy, industry restructuring, utility supply planning, contract negotiation, and on a wide range of other contemporary economic issues. The senior professional staff has provided expert testimony on numerous occasions before state, federal, and foreign regulatory agencies; state and federal courts, the Federal Energy Regulatory Commission, the U.S. Postal Rate Commission, and U.S. Congress and state legislative committees and subcommittees. Summaries of the qualifications of Exeter's senior staff are presented below:

MR. THOMAS S. CATLIN is a principal of Exeter Associates and a senior utility rate analyst with 35 years of experience in the review and analysis of the operation of public utilities. The emphasis of this work has been on utility rate regulation and has involved telephone, natural gas, electric and water companies. Mr. Catlin specializes in the areas of revenue requirements and class cost-of-service studies. He is thoroughly familiar with all the various aspects of ratemaking, the use of economic and engineering analytical techniques, rate base and operating income determination, and utility accounting. Mr. Catlin has also been involved in analyzing affiliate relations, alternative regulatory mechanisms, and regulatory restructuring issues. Mr. Catlin has testified before numerous state commissions and the Federal Energy Regulatory Commission. He holds a B.S. in physics and mathematics from the State University of New York at Stony Brook, and an M.S. in water resources engineering and management from Arizona State University. He is currently a member of the American Water Works Association (AWWA) Rates and Charges Subcommittee.

DR. STEVEN L. ESTOMIN is a principal of Exeter Associates and is a senior economist more than 30 years of experience in the areas of microeconomic applications, industry analysis, econometric modeling and environmental economics. He specializes in utility load forecasting, computer modeling, financial analysis, utility contract negotiation, cogeneration analysis, electric industry restructuring, power supply acquisition, and issues of competition and antitrust. Dr. Estomin has had major responsibility in evaluating long-term utility power supply options for U.S. Department of Energy and U.S. Air Force installations, and in negotiating long-term utility contracts for the U.S. government. Dr. Estomin has conducted electric sales and load forecasts for individual utility service areas and for the State of Maryland, and has testified on his review of electric sales forecasts prepared by utilities, including Pepco, Baltimore Gas & Electric Company, Commonwealth Edison, Central Maine Power, and Bangor Hydro. He has also testified on issues relating to statistical analysis, rate design, competition, and power supply acquisition for default supply service. Dr. Estomin holds a B.A., M.A., and Ph.D. in economics from the University of Maryland.

MR. DWIGHT D. ETHERIDGE is a principal at Exeter Associates with 27 years of wide ranging experience in the electric utility industry. His areas of expertise include retail competition, energy markets, risk management and control, distributed generation, telecommunications, contract rate negotiations, rate design, cost allocation and forecasting. As a consultant, Mr. Etheridge's work has included the development of long-term utility power supply options for U.S. Department of Energy and U.S. Air Force installations. While employed by an investor-owned utility, Mr. Etheridge held increasingly more responsible management positions in strategic, deregulation, pricing, and planning areas, including reporting to the CEO during electric deregulation and a merger of two utilities. Mr. Etheridge has extensive experience developing analytical and strategic solutions on a variety of utility issues and communicating on those issues to regulatory commissions, legislatures, senior management, boards of directors and the public. He has presented expert testimony on over 30 occasions and has acted as a spokesperson numerous times on television, radio and in print. Mr. Etheridge holds a B.S. in business administration from the University of California, Berkeley.

MR. JEROME D. MIERZWA is a principal of Exeter Associates and a senior analyst with 24 years of public utility regulatory experience. At Exeter, Mr. Mierzwa has conducted purchased gas cost allocation analysis and rate design analysis, management audits and similar investigations of the natural gas supply and procurement policies and practices of interstate gas pipelines and local distribution companies (LDCs). Most recently, Mr. Mierzwa has been involved in evaluating performance-based incentive regulation for LDC purchased gas costs and the unbundling of LDC services. Mr. Mierzwa has participated in developing utility class cost-of-service studies, has presented testimony sponsoring gas, water, and wastewater utility cost-of-service studies, least-cost gas procurement and incentive regulation, in addition to presenting testimony addressing utility rate base, expenses and revenues. Mr. Mierzwa holds a B.S. in marketing and an M.B.A. in finance from Canisius College.

MS. CHRISTINA R. MUDD is a principal at Exeter Associates, Inc. with 20 years of experience in energy efficiency, renewable energy, and climate change policy. With Exeter Ms. Mudd provides detailed analysis on the economic impacts of energy and environmental policies. Ms. Mudd participates in the Maryland staff working group for the Regional Greenhouse Gas Initiative, assists the Maryland Department of Natural Resources, Maryland Energy Administration and Maryland Department of Environment reviewing policies and programs related to electricity regulation, energy efficiency, renewable energy, and climate change. Ms. Mudd also provides technical support to federal agencies by reviewing utility supply contracts and rates, and reviewing the economic feasibility of alternative energy projects. Ms. Mudd served as the Executive Director of the National Council on Electricity Policy from January 2005 to December 2006. The National Council is a partnership between the National Association of Regulatory Utility Commissioners, National Association of State Energy Officials, National Governors' Association, and National Conference of State Legislators. Ms. Mudd holds a B.S. in political science and biology from James Madison University and an M.A. in international affairs with a concentration in economics and energy policy from Johns Hopkins University School for Advanced International Studies.

MR. KEVIN L. PORTER is a principal of Exeter Associates and a senior analyst with nearly 30 years of experience. Mr. Porter has been active in renewable energy analysis and research since 1984. His scope of expertise includes the technical and economic status of renewable energy technologies, design and implementation of state and federal renewable energy policies, transmission access and pricing for renewable energy technologies, and electricity policy in general. He has advised the National Renewable Energy Laboratory, the State of Maryland, the American Wind Energy Association, and other clients on renewable energy and green power procurement and policy design, and has written or co-written over 60 reports, conference papers, and journal articles. He holds a B.S. in environmental studies from Lewis & Clark College in Portland, Oregon, and an M.A. in economics from The American University in Washington, D.C.

MR. FELIPE A. SALCEDO is an economist at Exeter Associates, Inc. Mr. Salcedo has nine years of experience providing a full range of financial, rate, management, and consulting services to publicly-owned utilities and local governments. Clients served include water, wastewater, stormwater, and solid waste utility systems. Mr. Salcedo has successfully provided continuous financial consulting services to clients including municipal, cooperative and county-owned utility systems, community development, special purpose districts, and not-for-profit utility corporations located throughout the United States.